



## Legislation Details (With Text)

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<b>Title:</b>	Report regarding a resolution accepting the Comprehensive Citywide Fee Study and adopting the proposed changes to and fees in the Master Fee Schedule for Fiscal Year 2023-24 (Karen Chang, Director of Finance and Jason Wong, Deputy Finance Director)		
<b>Sponsors:</b>			
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<b>Attachments:</b>	1. Attachment 1 - SSF Fee Study Report, 2. Attachment 2 - SSF Parks & Rec Cost Recovery Memo, 3. Attachment 3 - SSF Master Fee Schedule FINAL, 4. Attachment 4 - Building Refund Policy, 5. Attachment 5 - SSF Fee Study Results Presentation FINAL		

Date	Ver.	Action By	Action	Result
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Report regarding a resolution accepting the Comprehensive Citywide Fee Study and adopting the proposed changes to and fees in the Master Fee Schedule for Fiscal Year 2023-24 (*Karen Chang, Director of Finance and Jason Wong, Deputy Finance Director*)

### **RECOMMENDATION**

**Staff recommends that the City Council (1) hold a public hearing to receive input regarding the adoption of proposed updates to the City of South San Francisco Master Fee Schedule for the Fiscal Year 2023-24; and (2) at the conclusion of the public hearing, consider adopting a resolution approving updates to the City of South San Francisco Master Fee Schedule for the Fiscal Year 2023-24.**

### **BACKGROUND/DISCUSSION**

Tax revenues support City services such as public safety, streets, and other infrastructures. Discretionary services that benefit a specific user group (rather than the entire community) are funded in whole, or part, by user fees. Under state law, public agencies, like the City of South San Francisco, are permitted to recover the costs associated with providing certain services considered to be a “personal choice” or “user fees.” Any amount not covered by user fees is then subsidized by General Fund tax dollars or other available sources. Such services are provided to a specific customer for their singular benefit. Some examples of those services are building permits or commercial film permit fees, which benefit the individual and not the community.

By law, most user fees may not exceed the reasonable cost of the service. Propositions 218 and 26 amended Article XIIC of the California Constitution to require that user fees be limited to the City's reasonable cost of providing the service or benefit. Council can set fees by a simple majority vote. Subject to other exceptions in Article XIIC and XIID, a fee for service that exceeds the reasonable cost of providing the service or benefit becomes a tax, which requires a vote of the electorate. Cities perform periodic studies to assess their costs of providing services before increasing existing fees or adopting new fees. The purpose of a cost of services study is to evaluate and determine the full cost (direct and indirect) of providing a variety of city services.

The last time the City of South San Francisco underwent a comprehensive Cost Allocation Plan and User Fee study was in Fiscal Year (“FY”) 2016-17. An interim update was scheduled for 2020, however, due to the COVID-19 pandemic this study was placed on hold. Under best business practices, the fee study should be re-examined and updated every three to five years.

On October 7, 2022, the City released a Request for Proposal for comprehensive user fee study, cost allocation plan and impact fee study to 12 consultants. We received three responses by the November 4, 2022 deadline. The review committee selected Matrix Consulting Group (“Matrix”) based on their extensive experience with other Bay Area cities providing similar services, familiarity with the City, and competitive fee quote.

Over the past several months, Matrix’s analysis of the proposed fees for service involved the following steps:

- Department / Program Staff Interviews: The project team interviewed department / program staff regarding their needs for clarification to the structure of existing fee items, or for addition of new fee items;
- Data Collection: Data was collected for each permit / service, including time estimates. In addition, all budgeted costs and staffing levels for Fiscal Year 2023 were entered into the Matrix’s analytical software model;
- Cost Analysis: The full cost of providing each service included in the analysis was established; and
- Review and Approval of Results with City Staff: Department management has reviewed and approved these documented results.

In working with Matrix, staff examined the following as part of the fee study:

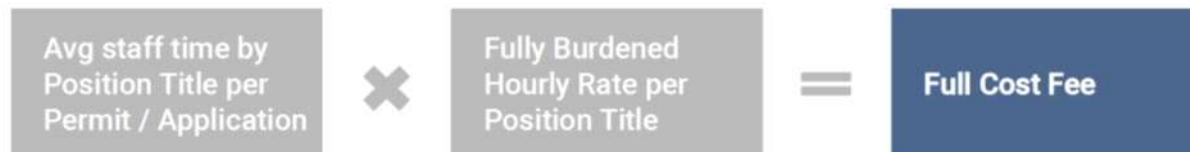
- Ensuring that fee calculations followed state and federal guidelines;
- Understanding the current cost to provide these services; and
- Establishing fees that reasonably recover the City’s cost to provide each service.

The final "Report on the Cost of Services (User Fee) study" is attached as Attachment 1 ("Study"). The Study provides data related to current service levels and the cost and demand for those services. It identifies the maximum fees that the City can charge. The study also provides the framework for assessing legal, financial, and policy issues associated with establishing those fees for service.

A supplemental memo was developed for Parks and Recreation related fees as those fees are subject to different regulations.

## **METHODOLOGY**

The methodology employed by the Matrix is a widely accepted “bottom-up” approach to cost analysis. Calculating fees begins with time spent per unit of fee activity for each position within a department or program. Once time spent for a fee activity is determined, all applicable City costs are then considered to calculate the “full” cost of providing each service. Direct costs include FY 2022-23 budgeted salaries, benefits, and allowable expenditures. Indirect costs include departmental or division administration. This includes management and clerical support, a proportionate share of operating expenses, overhead, and replacement costs for assets involved in delivering the service. Together, the cost components comprise calculating the total “full” cost of providing any particular service, regardless of whether a fee for that service is charged.



## DISCUSSION

The proposed FY 2023-24 Master Fee Schedule (Attachment 3) is based on the study results. The Master Fee Schedule contains a description by each user fee's department -- both current and recommended fees amount. Staff presented the items to the Budget Standing Committee of the City Council on Wednesday, May 3, 2023. The Committee provided some feedback which has been incorporated in the reports. Based upon the current schedule, if adopted by Council, the fees would become effective on or around August 13, 2023.

## SUMMARY OF RESULTS

When comparing FY 2022-23 fee-related budgeted expenditures with FY 2021-22 fee-related revenue the City is under-recovering its costs by approximately \$1.3 million or recovering 92% of its costs. The following table shows by major service area / discipline, the revenue collected, the total annual cost, the resulting difference, and the resulting cost recovery percentage.

Category	Current Fee Revenue	Full Cost Revenue	Difference	Cost Recovery
Housing	\$23,221	\$32,104	(\$8,883)	72%
Planning	\$1,114,668	\$2,159,082	(\$1,037,318)	52%
Building	\$9,220,734	\$9,295,300	(\$74,567)	99%
Fire	\$3,303,365	\$2,951,803	\$351,562	112%
Engineering	\$1,305,957	\$1,722,166	(\$416,209)	76%
Water Quality	\$92,421	\$180,530	(\$88,109)	51%
<b>Total</b>	<b>\$15,060,366</b>	<b>\$16,333,889</b>	<b>(\$1,273,522)</b>	<b>92%</b>

Planning has the largest under-recovery at approximately \$1.04 million. Planning's under-recovery is partially due to restructuring fees to account for City Attorney and Engineering cost and partially due to the increased time and effort associated with providing their services. Fire's over-recovery is due to ensuring alignment with the level of service provided, in particular, the right-sizing of valuation-based fees to ensure that all services are appropriately accounted for in the fee.

During the review process, staff recommended deleting, modifying, consolidating and expanding some fees to better reflect existing services. The largest change occurred in the Planning and Building Divisions of the Economic and Community Development Department ("ECD"), and the Fire Department.

### ECD Department - Planning Division

The Planning Division is responsible for reviewing development related projects to ensure compliance with zoning procedures and development standards. The division is also responsible for design reviews, general plan, use permits, zoning ordinance, and historical reviews. Fees examined in this study relate to development review and include fees such as conditional use permits, master licensing agreements, and design reviews. Staff recommend restructuring planning fees to include Planning, Engineering, and City Attorney time,

resulting in the applicant paying a single fee. The adjustments will provide applicants with a better reflection of the services being provided by Planning.

Planning shows an annual estimated deficit of approximately \$1.04 million. This represents a 52% cost recovery level. The largest source of deficit is in relation to ‘Design Review’ at \$700,000. Approximately \$357,000 of that is due to ‘Commercial and Industrial - New’ permits, where the per unit deficit is \$44,600; and \$207,000 is from the ‘Single Family Residential / New or Additions to 2 to 3 Units’ permit where the per unit deficit is \$9,800. The large deficits for these fees coupled with the frequency of their use, results in a large impact for Planning revenue. Planning should review their fees and make appropriate adjustments as a means to bridge these gaps.

### **ECD Department - Building Division**

The Building Division reviews all construction projects (residential and commercial) to ensure compliance with the California Building Code and its rules and regulations. The Building fee schedule consists of both flat fees and valuation based fees, both of which were studied. The project team worked with the Building Division to streamline the current fee schedule by expanding valuation-based fees for single-family residential, commercial, and mechanical, electrical, and plumbing permits. The report also recommends creating stand-alone permits for over-the-counter building permit fees. Identifying and implementing these changes to the Building fee structure will help to clarify the fee schedule, increase consistency of fee application, and reduced the complexity in relation to both internal staff and developers determining the full fees associated with their development projects. Many building projects may last beyond a singular year and as such, the project team annualized the revenue and cost to better reflect the annual cost associated with building services. Based upon the annualized cost, the annualized deficit related to Building is approximately \$223,000, reflecting a cost recovery level of 96%.

The Building Division established a policy and standards regarding refunds of Building Permit, Plan Review, and Permit Processing Fees. This policy (Attachment 4) is pursuant to the Building Official’s authority under Section 109.6 of the California Building Code and Section 15.08.010 of the South San Francisco Municipal Code.

### **Fire Department**

The Fire Department is responsible for protecting South San Francisco residents from fires, medical emergencies, natural disasters, and hazardous materials. Fees studied relate to transport fees, training, fire prevention, fire and life safety, and fire protection systems. In reviewing the current fee structure for Fire services, it was determined that modifications could be made to enhance an applicant’s understanding of the services offered and how fees are applied. The changes made to the fee schedule by right-sizing fees better reflect the services that are being provided, maintain compliance with legal requirements and enable the fire department to more accurately collect fees for those services.

Fire shows a surplus of approximately \$352,000 and a cost recovery level of 112%. Similar to Building permits, some of the Fire Life Safety items can span multiple years, as such some level of surpluses can be expected. The surpluses are in relation to ‘Fire & Life Safety - Plan Check’ at \$827,000 and ‘Fire Flat Fees’ at \$296,000. The over-recovery seen with ‘Fire & Life Safety - Plan Check’ is primarily due to plan check currently working to offset revenue for both plan check and inspections. For ‘Fire Flat Fees’ the largest over recovery is in relation to ‘Group R-1 & R-2 residential occupancies’ at \$259,000. This surplus represents a \$342 over-recovery. Similarly, this over-recovery is due to a proposed change to combine Group R1 and R2 occupancy permits rather than have them parsed out by number of units.

### **Public Works Department - Engineering Division**

The Engineering Division is responsible for supporting its customers by providing technical, timely, and cost-effective solutions that promote environmentally sustainable infrastructures. Overall Engineering shows a deficit of \$416,000 and a cost recovery level of 76%. The primary source of this deficit is in relation to flat fees. Of the roughly \$318,000 deficit associated with flat fees, \$202,000 is due to 'Sewer Lateral Review and Permit' which has a \$546 per unit deficit. The large deficit for this fee coupled with the frequency of its use, results in a large impact for Engineering's revenue. Increasing fees where appropriate will help increase annual cost recovery for Engineering. The modifications proposed will ensure that the Engineering fee schedule more accurately reflects the services being provided by staff.

### Public Works Department - Water Quality Division

Water Quality charges fees for 'Discharge Permits', 'Wastewater Analysis' and facility inspections. The project team worked with City staff to gather permit workload information for FY 2021-22. Water Quality shows an annual deficit of \$88,000 and a cost recovery level of 51%. The primary source of this deficit is in relation to 'Discharge Permits'. Roughly, \$48,000 of the deficit is in relation of 'Food Facility Discharge Permit', resulting in a per unit deficit of \$377. The large deficits for this fee coupled with the frequency of its use, results in a large impact for Water Quality revenue. Water Quality should review their fees and make appropriate adjustments as a means to bridge gaps and maximize cost recovery.

### Parks and Recreation Department

The Parks and Recreation Department provides opportunities to residents and visitors for physical, cultural and social wellbeing; protects and enhances the physical environment; and ensures the effective and efficient use of public facilities and open spaces. Parks and Recreation class fees are subject to a market-based analysis, and the offerings vary by season. The fees are included in seasonal activity guides to reflect each season's specific price and offerings. In order to review cost recovery, the project team looked at total revenue and compared it to the direct costs associated with each program. The following table shows by Fee Program: Revenue, Revised Budget, the associated difference, and cost recovery percentage.

**Table 1: Direct Program Cost Recovery**

Fee Program	Revenue <sup>2</sup>	Budget <sup>3</sup>	Difference	Direct Cost Recovery %
Aquatics Program	\$245,185	\$751,662	(\$506,477)	33%
Sports & Athletics	\$40,874	\$773,900	(\$733,026)	5%
Rentals/Picnics	\$440,988	\$722,006	(\$281,018)	61%
Classes/Events	\$349,302	\$715,297	(\$365,995)	49%
Preschool & Early Learning / Childcare	\$2,270,012	\$4,648,869	(\$2,378,857)	49%
Senior Centers	\$97,545	\$429,770	(\$332,225)	23%
<b>TOTAL</b>	<b>\$3,443,906</b>	<b>\$8,041,504</b>	<b>(\$4,597,599)</b>	<b>43%</b>

Preschool & Early Learning / Childcare / Real Program accounts for the majority of the Parks and Recreation Department's revenues. When comparing the revenue collected by the City for these Programs (\$3.44 million) to the direct costs incurred (\$8.04 million), cost recovery is 43% or has an annual shortfall of approximately \$4.6 million.

However, in order to provide these services, there are departmental overhead costs associated with recreation management, recreation commission, as well as citywide overhead costs incurred from city manager, city council, finance, facilities maintenance, etc. The below table outlines the same Fee Programs accounting for the full cost (direct + indirect) and showing the resulting differences and cost recovery percentages.

**Table 2: Full Cost Recovery**

Fee Program	Revenue	Annual Full Cost	Difference	Full Cost Recovery %
Aquatics Program	\$245,185	\$1,575,581	(\$1,330,396)	16%
Sports & Athletics	\$40,874	\$1,216,873	(\$1,175,999)	3%
Rentals/Picnics	\$440,988	\$1,242,012	(\$801,024)	36%
Classes/Events	\$349,302	\$1,327,829	(\$978,528)	26%
Preschool & Early Learning / Childcare	\$2,270,012	\$6,697,592	(\$4,427,580)	34%
Senior Centers	\$97,545	\$821,224	(\$723,679)	12%
<b>TOTAL</b>	<b>\$3,443,906</b>	<b>\$12,881,112</b>	<b>(\$9,437,206)</b>	<b>27%</b>

A 3% increase across the board applied over last year's fees was approved unanimously by the Park and Recreation Commission on April 18, 2023. The Commission considered that a 5% fee increase was implemented in 2022/23, and the goal of ensuring equity and affordability of enrichment and health and wellness programs for the community. The industry standard cost recovery for a Parks and Recreation department is between 20-50%. The low-cost recovery for these services is due to the belief that these services primarily benefit the community at large, and as such are providing a benefit to the residents of the jurisdiction. The department's direct and full cost recovery of 43% and 27% are both within the typical cost recovery range.

### Library

The Library Department provides accessible and exciting programs, services, and collections to support lifelong learning and literacy goals of our community, school success, access to and assistance with technology, safe and inviting spaces for youth and families, and gathering places and programs to connect community with reading, learning and personal interests. Services at three sites include computer and wireless access, study areas, homework and research help, multimedia collections, online resources and activities and programs for all ages. Access to core public library services, programs and collections are free, with fees identified in areas such as lost and damaged materials, computer printouts and photocopies, and out-of-library-system reserve requests. In discussion with Library staff, removal of "Microfilm Copies" was proposed as the Library no longer offers this service. At the April 25, 2023 meeting of the Library Board of Trustees, the Board unanimously approved the recommended library fee changes.

### DEVELOPMENT SERVICES SURCHARGES

There are two typical surcharges assessed as part of the development review process - General Plan Maintenance and Technology (Database Maintenance) fee. The City of South San Francisco currently charges the General Plan Maintenance Fee as part of the building phase, and the Database Maintenance Fee for all development-related fees and Business Licenses. In addition to these typical surcharges, the City is proposing to charge a Climate Action Surcharge, which would help fund greenhouse gas reduction measures.

### General Plan Maintenance Fee

The City of South San Francisco currently assesses a General Plan Maintenance Fee as part of its building permit process. The fee is meant to account for updates to the general plan, zoning ordinance, specific plans, transit action plans, housing elements, and other long-range planning activities that are part of the larger General Plan. The General Plan Maintenance fee is governed by Government Code Section 66014(b) which states that fees "may include the costs reasonably necessary to prepare and revise the plans and policies that a local agency is required to adopt before it can make any necessary findings and recommendations." The total annual costs associated with updating the General Plan are approximately \$1.48 million, of which staff costs represents \$673,000. It is important to note that the staff costs in the table are representative of fully burdened hourly rates and billable time.

The General Plan Update cost is based upon the City's most recent contract to update its General Plan (2019) and these comprehensive updates are typically completed on a 10-year lifecycle. The calculated General Plan Maintenance Fee is 0.30% of the Building Permit Valuation. The City's current fee is 0.16% of the Building Permit Valuation. Therefore, the full cost fee would result in increasing the City's current fee from 0.16% to 0.30%.

### **Technology Surcharge Fee**

The City currently collects a database maintenance fee, which is a flat rate of \$29 per permit or license. In discussions with staff and based upon comparison of other jurisdictions it was determined that this fee should be renamed as the Technology Surcharge Fee. The nomenclature of technology fee allows the City to more accurately convey the intent behind the fee, which is to support the costs associated with the City's permitting system (TRAKiT), and the staff time for managing permit systems; as well as to bring the fee name in line with standardized practices. Based upon this revised calculation, the City's technology fee would be 2% of the permit fee.

### **Climate Action Surcharge**

As a means to ensure compliance with various greenhouse gas reduction initiatives being implemented across California, the City is proposing a new surcharge which would be added onto building permits based on their valuation. In order to calculate the annual costs associated with these climate initiatives, the project team collected information regarding estimated costs to be set aside for meeting these initiatives and divided them over a ten-year period.

The estimated costs are approximately \$128,000 to be collected annually over a ten-year period. It's proposed that this surcharge be applied as a percentage of building valuation. The project team utilized the total annual cost and divided it by the total building valuation in FY 2021-22 to calculate the total percentage to be applied per permit. The Climate Action surcharge percentage per building valuation is calculated at approximately 0.026%. Additionally, as this is a new surcharge being collected it is recommended the City should collect this fee in a separate fund so that it can be utilized for the purpose of ensuring that all building permits are in compliance with greenhouse gas reduction initiatives.

### **RECOMMENDATION**

Staff recommends that the City Council (1) hold a public hearing to receive input regarding the adoption of proposed updates to the City of South San Francisco Master Fee Schedule; and (2) at the conclusion of the public hearing, consider adopting a resolution approving updates to the City of South San Francisco Master Fee Schedule. The proposed FY 2023-24 Master Fee Schedule is Attachment 3 of this staff report.

It is a best management practice to complete a Fee Assessment every three to five years. In between comprehensive updates, the City should utilize published industry economic factors such as Consumer Price Index (CPI) or other regional factors to update the cost calculations established in the Study on an annual basis.

### **FISCAL IMPACT**

Based on City staff recommendations and the prior year's workload, implementing the recommended fees will result in approximately a \$1.15 million increase in revenue.

Category	Current Fee Revenue	Recommended Fee Revenue	Revenue Change
Housing	\$23,221	\$32,104	\$8,883
Planning	\$1,114,668	\$2,097,810	\$983,142
Building	\$9,220,734	\$9,295,300	\$74,567
Fire	\$3,303,365	\$2,951,803	(\$351,562)
Engineering	\$1,305,957	\$1,722,166	\$416,209
Water Quality	\$92,421	\$113,237	\$20,816
<b>Total</b>	<b>\$15,060,366</b>	<b>\$16,212,420</b>	<b>\$1,152,054</b>

### RELATIONSHIP TO STRATEGIC PLAN

This effort supports the City's strategic initiative (Priority Area 3) of ensuring fiscal stability.

### CONCLUSION

The overall results of the study indicate the City is effectively capturing recoverable revenue. Conducting the study has confirmed that the user fees charged are legal, fair, and reasonable. If approved as proposed, based on the current schedule, the new Master Fee Schedule will go into effect on or around August 13, 2023.

### Attachments

1. Cost of Services (User Fee) Study Report
2. Parks and Recreation Supplemental Memo
3. FY 2023-24 Proposed Master Fee Schedule
4. Building Department Refund Policy
5. PowerPoint Presentation